

Message Text

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ORIGIN EB-11

INFO OCT-01 ADP-00 ARA-16 INT-08 COME-00 TRSE-00 CIAE-00

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DRAFTED BY EB/ORF/FSE:WBWHITMAN

EXT. 20681 8/28/73

APPROVED BY EB/ORF/FSE:GMBENNSKY

ARA/NC:MFORRESTER

CLC:COWENS

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R 282026Z AUG 73

FM SECSTATE WASHDC

TO AMEMBASSY CARACAS

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E.O. 11652: N/A

TAGS: ENRG, VE

SUBJECT: PETROLEUM ROYALTIES

1. VENEZUELAN EMBASSY PETROLEUM COUNSELOR INFORMS FSE THAT, DURING PRE-ELECTION PERIOD, OPPOSITION HAS BEEN NEEDLING GOVERNMENT BY ASKING WHY GOV DOES NOT TAKE ITS OIL ROYALTIES IN CRUDE RATHER THAN CASH. HIGH PRICES IN ECUADOR AND ELSEWHERE ARE BEING CITED AS SIGNIFICANT REASONS TO ADOPT CRUDE PAYOUT POLICY. ROSSI EXPLAINED GOV POLICY ON THIS ISSUE BY SAYING THAT IN ABSENCE OF BUYBACK ARRANGEMENT, ACCEPTANCE OF OIL WOULD DEPRIVE CREOLE AND OTHER REFINERIES OF CRUDE, THUS DISRUPTING THEIR OPERATIONS. HE ALSO STATED THAT FORMULA USED IN CALCULATING TRVS BUILDS IN AN AUTOMATIC ADJUSTMENT TO WORLD PRICE MOVEMENTS BY FACTORING IN U.S DOMESTIC PRICES. WITH REGARD LATTER POINT ROSSI WANTED TO KNOW WHAT COST OF LIVING COUNCIL HAS IN MIND REGARDING FUTURE INCREASES IN DOMESTIC PRICE OF CRUDE.

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2. WE TOLD ROSSI THAT, ACCORDING TO CLC, THE POLICY

TOWARD DOMESTIC PRICE LEVELS DIFFERENTIATES BETWEEN "NEW OIL", (THAT PRODUCED IN EXCESS OF 1972 PRODUCTION LEVELS) AND "OLD OIL", (I.E. ALMOST ALL U.S. PRODUCTION). NEW OIL PRICES WILL BE ALLOWED TO RISE FREELY TO FIND THE WORLD MARKET PRICE, WHILE OLD OIL WILL PROBABLY BE

PERMITTED TO MOVE UPWARD IN GRADUAL INCREMENTS TO REACH APPROXIMATE PARITY WITH THE IMPORT PRICE. HOWEVER CLC PREFERS NOT TO SPECULATE ON NUMBER OF STEP INCREASES WHICH WILL BE USED TO BRING OLD CRUDE PRICES UP TO THAT LEVEL OR WHEN NEXT STEP WILL OCCUR. AS BEFORE, INCREASES IN COSTS OF IMPORTED CRUDE MAY BE PASSED ON DIRECTLY TO CONSUMER.

3. BEGIN FYI FOREGOING IS SUPPLIED IN CASE SUBJECT RAISED WITH YOU IN CARACAS. WE BELIEVE HOWEVER THAT ROSSI MIGHT HAVE TOUGH SLEDDING IN CONVINCING SOME EXPERTS THAT INCLUSION OF U.S. DOMESTIC PRICE AS ONE ELEMENT OF TRV FORMULA CAN FULLY ADJUST FOR THE KIND OF HIGH SPOT PRICES WE ARE NOW SEEING THROUGHOUT THE WORLD. HOWEVER IN TODAY'S TUMULTUOUS OIL WORLD IT WAS REFRESHING TO HEAR OF GOV SOLICITUDE FOR THE WELL BEING OF REFINERY OPERATIONS BY U.S. COMPANIES. END FYI. RUSH

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